



1 CROWELL & MORING LLP

Thomas F. Koegel (CSB No. 125852, tkoegel@crowell.com)

2 Bruce J. Zabarauskas (CSB No. 248601, bzabarauskas@crowell.com)

275 Battery Street, 23rd Floor

3 San Francisco, California 94111

Telephone: (415) 986-2800

4 Facsimile: (415) 986-2827

Signed and Filed: July 08, 2011

THOMAS E. CARLSON  
U.S. Bankruptcy Judge

5 Attorneys for Plaintiff E. Lynn Schoenmann as Chapter 7  
Trustee for the Estate of James Paulett Charlton

8 UNITED STATES BANKRUPTCY COURT  
9 NORTHERN DISTRICT OF CALIFORNIA  
10 SAN FRANCISCO DIVISION

12 In re

Case No. 04-32400 TEC 7

13 JAMES PAULETT CHARLTON,

14 Debtor.

Adv. Proc. No. 06-3139

16 E. LYNN SCHOENMANN, TRUSTEE

17 Plaintiff

**ORDER APPROVING THE  
PROTOCOLS FOR SALE OF  
COLLATERAL PURSUANT TO TERMS  
OF SETTLEMENT AGREEMENT AND  
SECURITY AGREEMENT**

18 - against -

19 PRISM PRIME. LLC, ENTERNET  
DEVELOPMENT CORP., and FUTURE  
20 NOW ENTERPRISES, LLC,

21 Defendants.

Hearing Date: July 8, 2011

Courtroom: 23

Judge: Hon. Thomas E. Carlson

1 E. Lynn Schoenmann (the “Trustee”), the Chapter 7 Trustee of the estate of James Paulett  
2 Charlton (the “Debtor”) having filed: (i) a motion for entry of an order re-opening this adversary  
3 proceeding, entering the “Default Order” as defined in, and pursuant to the terms of, the settlement  
4 agreement entered into in connection with this adversary proceeding and previously approved by  
5 this Court (the “Settlement Agreement”), and approving the protocols for the sale of the Collateral  
6 (the “Motion”), (ii) the declaration of Thomas F. Koegel in support of the Motion (the “Koegel  
7 Declaration”), (iii) a memorandum of points and authorities in support of the Motion (the “Memo  
8 Of Points and Authorities”), and (iv) a motion to shorten the time for a hearing on the Motion (the  
9 “Motion Shortening Time”); and opposition to the Motion Shortening Time having been  
10 submitted by Zangle, Inc. and Larry Anderson; and the Court having entered an order, dated June  
11 30, 2011 granting the Motion Shortening Time and scheduling a hearing on the Motion for July 8,  
12 2011; and the Court having previously entered orders dated July 1, 2011 re-opening the above-  
13 captioned adversary proceeding and entering the Default Order; and a hearing on the Motion’s  
14 request for entry of an order approving sale protocols having been held on July 8, 2011 (the  
15 “Hearing”); and the Court having found that notice of the Hearing was good and sufficient; and  
16 the Court having read and considered the Motion, The Koegel Declaration, the Memo of Points  
17 and Authorities, and all objections filed to the relief requested in the Motion (the “Objections”);  
18 and the Court having overruled all of the Objections; and the Court having further found that the  
19 sale protocols contained in this order are fair and reasonable and satisfy due process;

20 NOW, THEREFORE, IT IS HEREBY

21 ORDERED that the Motion’s request for entry of an order approving the sale protocols for  
22 the sale of the Collateral as defined in the Security Agreement entered into in connection with the  
23 Settlement Agreement is hereby granted; and it is further

24 ORDERED that the Trustee is authorized to sell the Collateral on the following terms and  
25 conditions:

- 26 (i) An auction sale (the “Auction”) of the Collateral shall be held before the Court on  
27 **August 21, 2011 at 2:30 p.m.** The Copyrights and the stock of C Innovation Inc.  
28 (the “CII Stock”) will be auctioned both separately (i.e., both an auction of all the  
Copyrights together, and a separate auction of the CII Stock), (hereafter, the  
“Separate Bids”) and an auction of all of the Collateral together (i.e., a single

1 auction of the Copyrights and CII Stock) together (hereafter, the “Bulk Bid”).  
2 Specifically, the Trustee shall first conduct an auction of the Copyrights, then an  
3 auction of the CII Stock. Finally, the Trustee shall conduct the auction of the  
4 Copyrights and CII Stock together. The winning bid will consist of the greater of  
5 the: (i) aggregate of the Separate Bids; or (ii) the amount of the Bulk Bid.

6 (ii) The Collateral shall be sold free and clear of any and all liens, claims and interests  
7 to the Collateral as provided by California Commercial Code § 9617 and the  
8 Trustee shall be empowered to execute a transfer statement as provided by  
9 California Commercial Code § 9619 with regard to the auctioned property;

10 (iii) Only “Qualified Bidders” and the Trustee may bid at the Auction. In order to  
11 become a Qualified Bidder, a party must no later than three business days before  
12 the Auction: (a) identify the name, address, phone number and email address of the  
13 bidder; (b) provide a deposit in the amount of \$100,000 (the “Deposit”) to the  
14 Trustee in immediately available funds (i.e., wire, bank transfer, certified check),  
15 which Deposit shall become non-refundable in the event that such bidder becomes  
16 the Highest Bidder or Second Highest Bidder (both as hereafter defined); and (c)  
17 execute such documentation as required by the Trustee, pursuant to which the  
18 bidder agrees to be bound to the terms of this Order. Notwithstanding anything to  
19 the contrary contained herein, the Trustee may, in her sole discretion, permit a party  
20 to become a Qualified Bidder less than three business days before the Auction. The  
21 Trustee shall hold all Deposits in a non-interest bearing account.

22 (iv) Within 5 business days after entry of an order approving these sale protocols, the  
23 Trustee shall provide written notice of the Auction and the terms thereof to all  
24 parties who, to the Trustee’s knowledge, claim an interest in the Collateral. These  
25 parties consist of the Debtor, Anderson and the Anderson Entities, Gary Loyd,  
26 Vermont Equity Holdings LLC, Zangle, Inc. and SiCorp. The Trustee shall also  
27 provide such notice to any parties who have expressed an interest in the purchase of  
28 the Collateral.

(v) Prior to the Auction, the Trustee may enter into a stalking horse agreement with  
any purchaser, which shall be subject to higher and better offers and which shall be  
subject to this Court’s approval either prior, at, or subsequent to the Auction  
(the “Stalking Horse Agreement”);

(vi) The amount of the initial bid at the Auction and bidding increments shall be set by  
the Trustee, provided however, that if the Trustee enters into a Stalking Horse  
Agreement, then the initial bid shall be equal to the purchase price provided for in  
the Stalking Horse Agreement;

(vii) Except for the Trustee, all bids at the Auction shall be on an all-cash basis and not  
subject to any financing or any other contingency. At the Auction, the Trustee  
shall be permitted to credit bid up to the outstanding amount due under the  
Settlement Agreement;

(viii) Provided that the Trustee does not submit the highest bid at the Auction, at the  
conclusion of the Auction, the bidder with the highest bid (the “Highest Bidder”)  
shall be declared the winner and be required to purchase the auctioned property for  
the amount of its winning bid. The balance of the purchase price (i.e., the winning  
bid minus the Deposit) shall be paid to the Trustee by the Highest Bidder in  
Immediately Available Funds no later than 30 days after the Auction, time being of  
the essence with respect thereto. In the event that the winning bidder fails to pay  
the balance of the purchase price within 30 days after the Auction, then the Trustee

1 shall keep the Highest Bidder's Deposit as liquidated damages, and the Trustee or  
2 her counsel shall transfer the auctioned property to the party that submitted the  
3 second highest bid (the Second Highest Bidder"), in which case (i) the Second  
4 Highest Bid shall be required to purchase the auctioned property for an amount  
5 equal to the Second Highest Bid; and (ii) the Second Highest Bidder shall pay the  
6 balance of the purchase price (i.e., amount of the Second Highest Bid minus such  
7 bidder's \$100,000 Deposit) to the Trustee in Immediately Available Funds no later  
8 than 30 days after the Auction, time being of the essence with respect thereto. In  
9 the event that the Second Highest Bidder fails to pay the balance of the purchase  
10 price within 30 days after being notified by the Trustee or her counsel that the  
11 Highest Bidder has defaulted on its obligations hereunder, and that the Second  
12 Highest Bidder is required to purchase the auctioned property, then the Trustee  
13 shall keep the Second Highest Bidder's Deposit as liquidated damages, and the  
14 Trustee shall conduct another auction on the same terms and conditions set forth  
15 herein. Upon receipt of payment of the purchase price, the Trustee shall execute a  
16 transfer statement pursuant to California Commercial Code § 9619;

17 (ix) Within three business days after the conclusion of the Auction, the Trustee shall  
18 return all deposits to Qualified Bidders except for the Highest Bidder and Second  
19 Highest Bidder. The Deposit of the Second Highest Bidder shall be returned by the  
20 Trustee within three business days after the Trustee receives the balance of the  
21 purchase price from the Highest Bidder.

22 (x) The proceeds from the Auction shall be distributed by the Trustee pursuant to the  
23 terms of the Settlement Agreement, the Security Agreement and the California  
24 Commercial Code, as determined by an order of this Court, which shall provide,  
25 *inter alia*, that the proceeds of the sale be distributed in the following order – first,  
26 in payment of the reasonable expenses of sale, second, in satisfaction of the  
27 outstanding amounts due under the Settlement Agreement, third in satisfaction of  
28 the Contingency Settlement Payment, fourth, to any junior lien holders on the  
Collateral, and fifth the payment of any surplus to the Grantors, as defined in the  
Security Agreement. Within 30 days after distribution of the proceeds of the  
Auction, the Trustee shall file an accounting with the Bankruptcy Court of the  
proceeds received and distributions made therefrom. Following the distribution of  
the proceeds of the sale of the Collateral, the Trustee shall have the right to seek  
entry of a deficiency judgment, jointly and severally against the parties to the  
Settlement Agreement; and

(xi) Notwithstanding anything to the contrary contained herein, the Grantors under the  
Security Agreement shall have those rights of redemption provided in § 9623 of the  
California Commercial Code.

\*\*\* END OF ORDER \*\*\*

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\*\*\* COURT SERVICE LIST \*\*\*

**Larry Anderson**  
592 High Ridge Lane  
Alpine, UT 84004

Settlor; Principal of Settling Entities

**Gary Loyd**  
Centurion Research Solutions, LLC  
14048 Park East Circle #100  
Chantilly, VA 20151

Alleged Party in Interest